

Washington State Department of Retirement Systems

Frequently Asked Questions About Purchased Service Credit¹

What does it cost to purchase service credit?²

If you decide to purchase additional service credit, you must pay, in a lump sum, the actuarial equivalent value of the resulting increase in your benefit payment. The actuarial equivalent value means the lump-sum amount needed, at the time of retirement, to pay for the increased monthly benefit over your lifetime. To determine what the lump-sum amount will be, you first determine the difference between your monthly benefit with, and without, the purchased service credit. Once you have that number, you divide it by the factor from the table provided by the State Actuary. The following example illustrates how this would work: *

Dolores is a PERS Plan 2 member who is 60 years of age, has 22 service credit years (SCY) and qualifies for an early retirement. Her average final compensation (AFC) is \$2,500 per month. Her reduction factor for early retirement (ERF) is 0.6100. She wants to purchase five additional years of service credit.

Step one is to calculate her benefit *without* the purchased service credit. The formula is: $2\% \times \text{AFC} \times \text{SCY} \times \text{ERF} = \text{monthly benefit amount}$.

In Dolores' case, that would mean:

$$2\% \times \$2500 \times 22 \times 0.61 = \$671.00$$

The second step is to calculate her benefit *with* the purchased service credit

$$2\% \times \$2500 \times 27 \times 0.61 = \$823.50$$

The third step is to subtract the amount of her benefit *without* the purchased service credit from her benefit *with* the purchased service credit.

$$\$823.50 - \$671.00 = \$152.50$$

The final step is to divide the difference between the two by the factor from the State Actuary's table. This will show the cost of purchasing the additional service credit.

$$\$152.50 / 0.0063959 = \$23,843.40$$

* The factors are age and system/plan based and taken from a 1995-2000 actuarial experience study.

¹ <http://www.drs.wa.gov/member/faq/purchase.htm>, Viewed 11/8/04

² For Public Employees' Retirement System (PERS) Plans 2 and 3 and members of the School Employees' Retirement System (SERS) Plans 2 and 3